# CAPITAL DIVERSIFIED INDUSTRIES LIMITED

NNUAL REPORT · NINETEEN HUNDRED AND SIXTY NINE

# CAPITAL DIVERSIFIED INDUSTRIES LIMITED

# ANNUAL REPORT 1969

REGISTRAR AND TRANSFER AGENT,
COMMON SHARES & DEBENTURES
—The Royal Trust Company

AUDITORS—McDonald, Currie & Co.
London, Ontario

LISTED ON—Toronto Stock Exchange
Canadian Stock Exchange

HEAD OFFICE—291 King Street, P.O. Box 5376
London, Ontario

## DIVISIONS

CONSTRUCTION DIVISION
Capital Homes Limited (Windsor)

DEVELOPMENT DIVISION

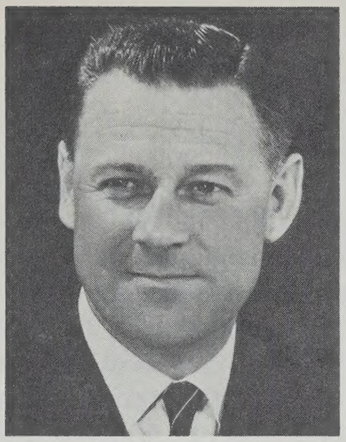
FRONTIER ACCEPTANCE DIVISION
Frontier Acceptance Corporation Limited

RED BARN DIVISION
Red Barn System (Canada) Limited

PRICEGARD DIVISION
Pricegard Limited
formerly J-L Vitamins and Cosmetics Limited

CAPITAL FOODS DIVISION
Middlesex Reddies Limited
Middlesex Creamery Limited

## CONTENTS



DONALD H. SWIFT

## PRESIDENT'S REPORT TO SHAREHOLDERS

As reported to you in a shareholders news release on April 1st, our consolidated net earnings for 1969 of $.12 per common share as compared with restated $.21 per common share for 1968, were lower than anticipated. The decrease was mainly the result of a change in certain accounting methods as outlined in more detail under the "Financial Review" of this report.

On the surface, the above earnings would appear to indicate an adverse trend of the Company's profitability, when in fact profits from operations in 1969 were greater than 1968. This increase was accomplished despite the fact that our housing division was closed for 5 months due to an industry labor dispute, the inability of our Development Division to physically close two land sales during the latter part of the year, the expensing of all costs re the opening of Pricegard's new warehouse, the opening of 19 new Pricegard locations, and the opening of 20 new Red Barn locations. I believe the foregoing augers well for your Company's policy of diversification. Had we been totally engaged, for example, in housing, the financial results would certainly have been very depressing.

There is little doubt that the Canadian economy is and has been in a recessionary trend, and the impact of this economic decline is now evident in most segments of commerce and industry.

We believe the efforts of our expansion program and organization over the past two years have placed Capital in a position to produce improved profits in face of present adverse conditions. Careful analysis of our divisional activities indicate that Pricegard, Red Barn and Capital Foods sales will continue to improve; Frontier will produce a continued profit; firm contracts in the Development Division will result in improved profits; and while housing sales will be less than projected, it will remain a profitable operation.

Detailed market studies, however, indicated that there is no long term future for our Essex Cabinet operation in Ottawa. We feel the investment, plus the time and energy of senior executives spent on this operation can be more profitably employed elsewhere. For these reasons, this operation was closed on March 31, 1970. As its contribution was less than 2% of consolidated profits in 1969, the redirection of funds employed will more than compensate for such profits.

Details of 1969 operations and future expansion programs will be found under Divisional reviews. While we are confident that the expansion plans can be achieved, and some are already underway, we should point out that the achievement date of the total program is dependent upon the availability of proper financing.

The Board of Directors and Management are confident of the Company's future. However, with the exception of Frontier all Divisional activities are of a seasonal nature, and our first quarter results will be lower than those of the subsequent quarters throughout the year. Therefore, we would point out that the first quarter earnings are in no way indicative of the total anticipated profits for 1970.

We would like to take this opportunity on your behalf to thank our management team and staff for their efforts and accomplishments during 1969.

April 15, 1970

D. H. Swift

President

# FINANCIAL REVIEW

Consolidated net earnings for 1969 were $514,766 as compared with restated earnings of $722,971 for 1968 or $.12 and $.21 per common share respectively after preference dividends, with the per share figure for 1969 being based on an increased number of shares outstanding.

Our past accounting practices (as previously approved by the Company's auditors) recorded the sale of Red Barn area licences as non-taxable extraordinary items and took into income the total sale price of such licences as stated in our 1968 annual report and in all quarterly reports in 1969.

Our auditors, McDonald, Currie & Co., have now advised, however, that income taxes should be provided for on the sale of area licences. Your Directors in considering this question, also took into consideration the fact that all of our other franchise fee income is accounted for on a cash basis. With this in mind, and their strong feeling that the Company's accounts should be presented on the most conservative basis possible, your Directors made the decision to adjust 1968 earnings and to present our 1969 statements on the basis of recording all franchise and licence fee income on a cash basis and providing full tax thereon.

While this accounting procedure substantially reduces our 1969 reported earnings, it should be pointed out that the profit that would have been taken into 1969 earnings under previous accounting methods for area licence fees will be taken into income over the next four years as the cash is received. Also the actual tax treatment of sales of area licences has not been finally determined. Therefore it is possible that the provision for income taxes on these items may prove to be unnecessary and if so will also be credited to the Company's profits in the future.

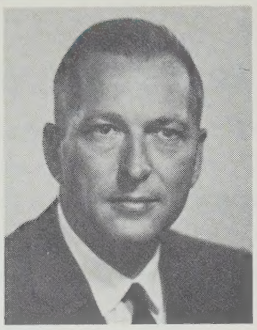
Earnings from operations before and after income taxes but before extraordinary items both increased over 1968. Net earnings were down, however, due to greater tax reductions in 1968 from the application of losses carried forward. More earnings in 1969 were produced by fully taxable subsidiaries. We still have approximately $700,000 of accumulated tax losses in certain subsidiaries to apply against future income, and we expect to use the greater portion of these in 1970.

During 1969 Capital again substantially increased its base capital. As stated in our last annual report, the holders of the secured income debentures exchanged them for cash and $600,000 of Class B Preference Shares. Also, as previously indicated, the holders of $1,000,000 of convertible income debentures issued in connection with the acquisition of the Middlesex companies exchanged them for $1,000,000 of Class A Preference Shares. In addition, on November 21, 1969, Capital sold to the public through underwriters $5,000,000 of 8½% Convertible Subordinated Debentures. The Debentures mature November 15, 1979, are subordinated to other indebtedness and are convertible into common shares of Capital. These transactions, plus retained earnings, increased total equity and subordinated debt from $6,040,444 at December 31, 1968 to $13,137,517 at December 31, 1969 and provides a stronger base to support further expansion.

The nature of the expansion over the past two years in that most of Capital's new funds have been invested in Red Barn real estate has resulted in working capital being in a small deficit position. It should be pointed out, however, that Red Barn is currently carrying over $5,000,000 of lands and buildings which, except for a minor amount of land purchase mortgages, are unencumbered. In addition, commercial real estate now held in the Development Division totals $4,100,000. Financing of the Red Barn assets plus sales of certain commercial real estate, work on which is presently in process, will put Capital in an improved working capital position when finalized.

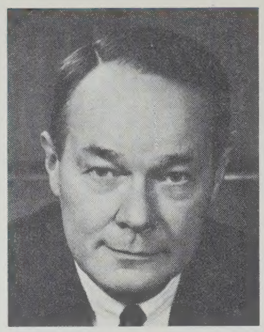
| | 1969 | 1968 | 1967 |
|---|---|---|---|
| Gross Revenues: | | | |
| Sales | $15,098,317 | $ 5,390,483 | $ 5,889,088 |
| Rentals, Royalties, Interest and Franchise and Area Licence Fees | 1,848,608 | 906,352 | 117,300 |
| | $16,946,925 | $ 6,296,835 | $ 6,006,388 |
| Earnings Before Interest, Depreciation and Income Taxes | $ 1,769,080 | $ 1,227,289 | $ 453,498 |
| Interest Expense | 511,852 | 263,332 | 141,518 |
| Depreciation and Amortization | 237,113 | 56,332 | 26,903 |
| Earnings Before Income Taxes | 1,020,115 | 907,625 | 285,077 |
| Provision for Income Taxes | 574,000 | 480,944 | 146,500 |
| Earnings Before Extraordinary Items | 446,115 | 426,681 | 138,577 |
| Extraordinary Items: | | | |
| Capital Gains and Miscellaneous (Net) | 30,949 | 5,900 | (36,570) |
| Reduction of Income Taxes as a Result of the Application of Prior Years' Losses | 37,702 | 290,390 | — |
| | 68,651 | 296,290 | (36,570) |
| Net Earnings | $ 514,766 | $ 722,971 | $ 102,007 |
| Per Common Share on Average Shares Outstanding | $ .12 | $ .21 | $ .04 |
| Average Shares Outstanding During Year, Adjusted for Poolings | 3,928,240 | 3,334,800 | 2,044,220 |
| Total Assets, Including Frontier Acceptance | $30,270,320 | $21,124,439 | $ 6,862,745 |
| Working Capital (Deficit) | (297,758) | 144,370 | 1,093,962 |
| Commercial Real Estate and Fixed Assets (Net) | 10,379,420 | 4,543,773 | 2,559,272 |
| Long-Term Debt | 8,204,530 | 2,892,220 | 3,205,521 |
| Shareholders' Equity (Historical Without Adjustments for Pooling) | 8,137,517 | 6,040,444 | 2,069,805 |

## DIRECTORS

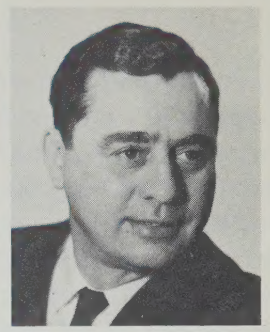


C. NORMAN CHAPMAN,
*Director; President and General Manager Emco Limited, London*

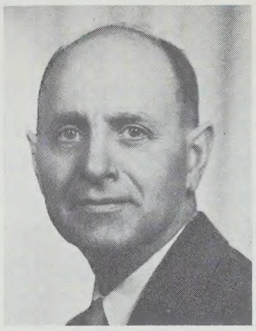
WILLIAM G. DINGWALL,
*Director; President Dinvest Management Limited and associated companies, Toronto*



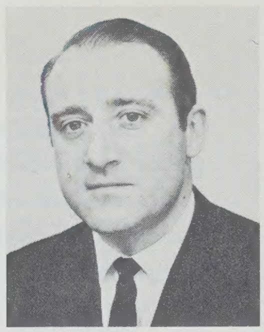
JOHN D. HARRISON, M.B.E., Q.C.,
*Director; partner Harrison, Elwood, Gregory, Littlejohn and Fleming, Barristers and Solicitors, London*



CLARENCE W. LEONARDI, C.A.,
*Director; Vice-President and Treasurer Glengair Group Limited, Toronto*

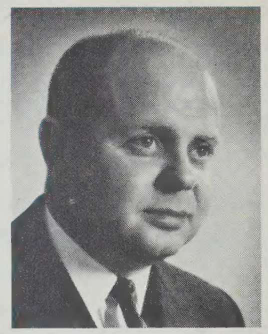


NINIAN T. SANDERSON,
*Director; President Nintosa Investments Limited, London*



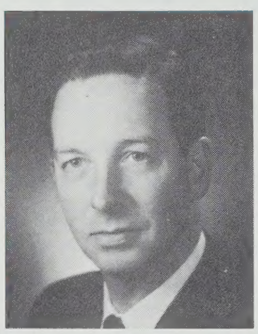
JOHN R. SHEMILT,
*Director; Manager Netherlands Overseas Corporation Canada Limited, Toronto*

DONALD H. SWIFT,
*President and Chief Executive Officer Capital Diversified Industries Limited, London*

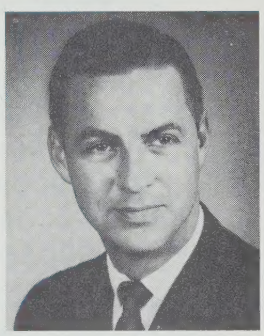


RICHARD W. YANTIS,
*Director; Chairman Finance Committee Avco Corporation, London*

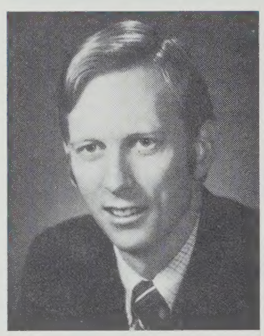
## OFFICERS AND SENIOR MANAGEMENT



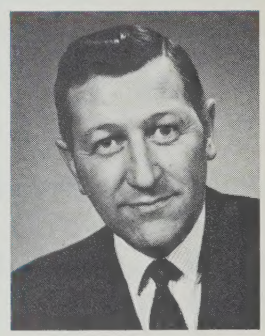
JAMES B. GIBSON,
*Vice-President Operations and Secretary*



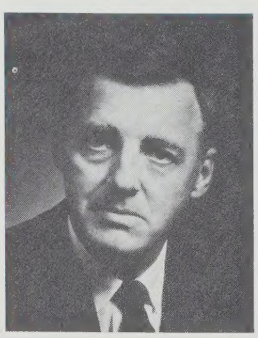
LYMAN W. OEHRING, Jr., C.P.A., C.A.,
*Vice-President Finance*



M. THOMAS BRIGHT, C.A.,
*Comptroller*

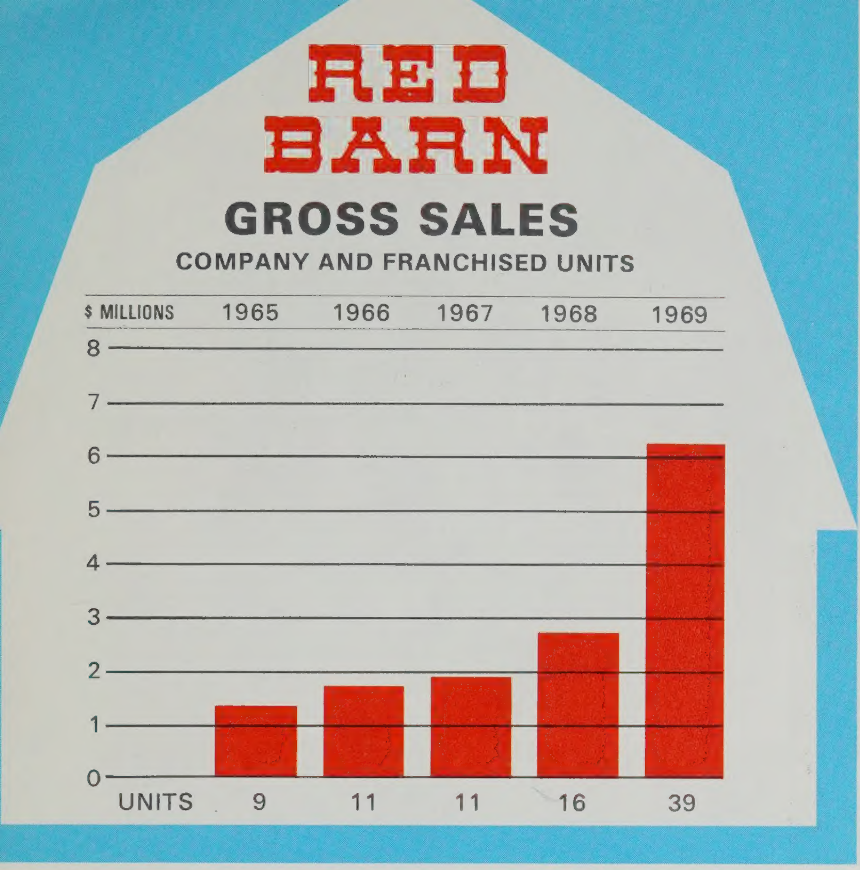


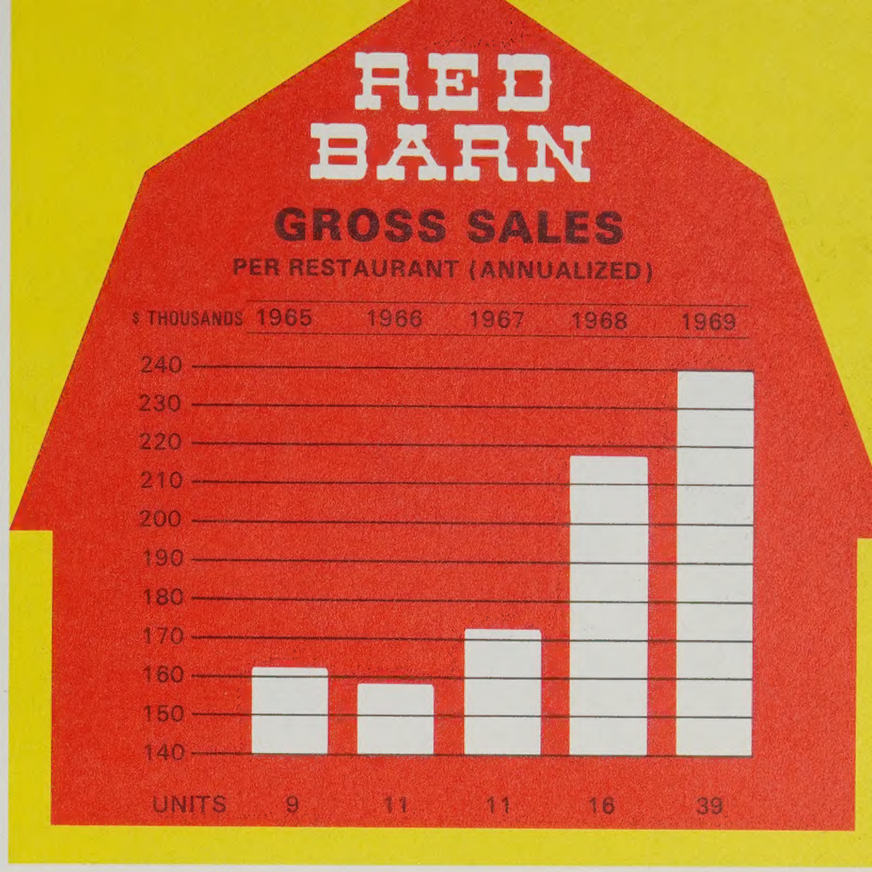
KENNETH G. BENTLEY, B.A.Sc., M.B.A., P.Eng.,
*Director of Operations*



WILLIAM C. WHEELER,
*Director of Marketing*

CAPITAL DIVERSIFIED INDUSTRIES LIMITED




## RED BARN DIVISION

The achievement of our 1969 expansion plans of an additional 20 Red Barn restaurants has resulted in one or more Red Barn family restaurants being located in most Ontario cities. The chain has grown to 42 restaurants as of March 31, 1970.

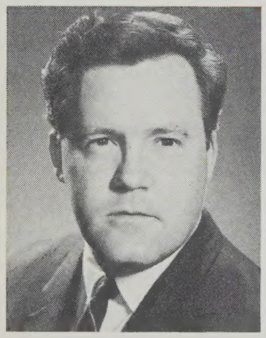
As shown on the accompanying sales graphs, gross sales for all restaurants climbed to $6,244,379 in 1969, compared to $2,694,705 during 1968. Individual restaurant gross sales on an annualized basis reached an all time high of $240,000. This performance was achieved while considerable competition entered the market.

Larger Red Barn Restaurants seating as many as 100 customers were introduced in two locations, St. Catharines and London, Ontario. The design consisting of a side wing will be added to existing Red Barn restaurants where market research indicates a satisfactory return on investment.

### EXPANSION PLANS FOR ONTARIO

Red Barn's current objective is an additional 20 units bringing the total in Ontario to 62. Some of the new sites have already been selected and preparation for construction has begun. Final achievement date for the above

RED BARN SYSTEM



ROSS KING,
*Executive Vice-President and General Manager Red Barn System (Canada) Limited*

*(Charts left to right)*
*Red Barn System (Canada) Limited — Gross Sales*

*Red Barn Restaurant Gross Sales — Per Restaurant Annualized*

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expansion plan will be dependent on the present and future availability of the necessary financing. The depth of our supervisory staff and existing regional advertising and promotional programs now make it possible to locate some of these additional units in smaller communities.

The Company operated one restaurant for training and marketing purposes during 1969 and has in the past two months brought this number to four. Present expansion plans call for a total of ten. This will enable Red Barn to test market new products in various areas and supply additional training centres for new franchisees and their employees.

**AREA FRANCHISES OUTSIDE OF ONTARIO**
As previously announced, the long range development plan of Red Barn System (Canada) Limited is to erect family restaurants throughout Canada. The sale of the British Columbia and Alberta area licence was announced on January 26, 1970. Red Barn System (Canada) Limited owns 25% of the new company, Red Barn System (Western) Limited. The new company proposes to open a minimum of 30 Red Barn Restaurants during the next five years. Detailed market studies are now being prepared and construction of the first unit will begin immediately.

**OUTLOOK**
The operation of this division in 1969 contributed a substantial portion of Capital's overall profits. With the 42 units now in operation in Ontario plus the current expansion program, increased royalties and store opening fees from franchises in Australia and other area franchises, along with increased sales, make us optimistic regarding the future of this division.

**AUSTRALIA**
During 1969 three Red Barn fast food restaurants were opened in Australia by the licencee, Spotless Limited. The construction program now underway should bring the total to 10 operating units by year end. We are very pleased with consumer acceptance in Australia and reported sales are exceeding expectations.

The design of the restaurant buildings and their equipment is almost identical to the easily recognized Canadian concept. The menu also follows the Canadian recommendations. Since Red Barn is the first fast food family restaurant chain to be introduced in Australia, every effort is being made to establish a dominant market position.

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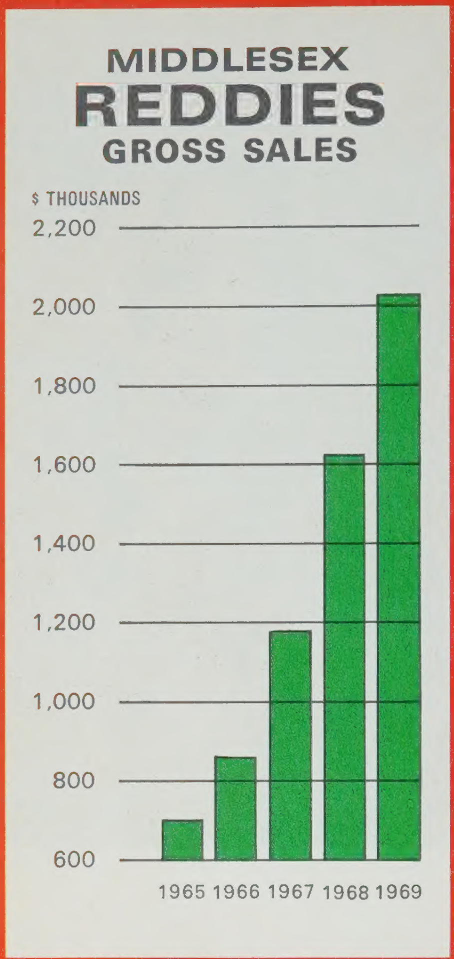
## RED BARN'S COMMUNITY ACTIVITIES

50 Hockey, Baseball and Soccer teams were sponsored by the Red Barn during 1969. Girl Guide, Boy Scout, Cub and Brownie groups visited behind the scenes at their neighbourhood Red Barn for an educational tour. Red Barney, the happy performing clown is employed on a full-time basis, entertaining at hospitals, bazaars, schools and safety lectures.

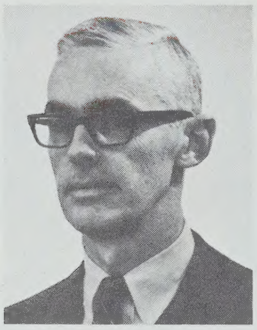
*Opposite page, (Photos left to right)*

*Interior view of enlarged Red Barn Restaurant. Side wing addition increases seating accommodation to 100. The design may be added to restaurants where marketing research indicates a profitable return.*

*Left to right, James B. Gibson, Vice-President Operations Capital Diversified Industries Limited and President Red Barn System (Canada) Limited, Mayor Jackson of Balwyn, a suburb of Melbourne, Australia and Owen Widdicombe, General Manager Red Barn Australia open the first Australian Red Barn Restaurant November 17, 1969.*




## CAPITAL FOODS



ED DAY,
*General Manager*
*Capital Foods*

Middlesex Creamery Limited
Middlesex Reddies Limited

In February 1969, Capital Diversified acquired Middlesex Creamery Limited and Middlesex Reddies Limited. These companies were engaged in the processing, packaging and sale of eggs, print butter and preportioned butter and margarine.

Late in the year a modern egg processing plant was purchased from Cuddy Foods of Strathroy, Ontario.

These acquisitions have now been integrated into a new division known as Capital Foods.

The combined Middlesex and Cuddy egg operations now process and package approximately 8 million dozen eggs annually, with a projected volume of 10 million dozen by 1972.

Distribution of print butter remains constant in a somewhat depressed market.

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The production and sale of Reddies preportioned butter and margarine patties increased 25% during 1969 over 1968. The installation of an additional Reddies machine during 1970 will increase production and sales to a new all time high.

The planned introduction of Reddies preportioned butter to the United Kingdom has also been realized with the arrival of production equipment at the plant of Northern Dairies Limited, one of the largest dairies in England. Northern Dairies Limited and Capital Diversified Industries Limited will co-operate in a joint venture to sell Reddies throughout the United Kingdom.

Current plans call for a 12,000 sq. ft. addition in Strathroy to further integrate the operations of this Division. The Company is confident of the continued contribution of profits from this division.

*(Left to right)*

*Reddies (Sales)*

*Inspectors conduct a quality check as eggs are candled on a production line at the modern Strathroy, Ontario Capital Foods plant.*

*Stack of Reddies.*

*Meals being prepared for passengers by Air Canada Stewardess.*

*Air Canada Stewardess serving a delicious in-flight meal complete with a preportioned Reddies butter pattie.*

LEE ASCIAK,
*General Manager*
*Construction (Windsor)*

## CONSTRUCTION DIVISION

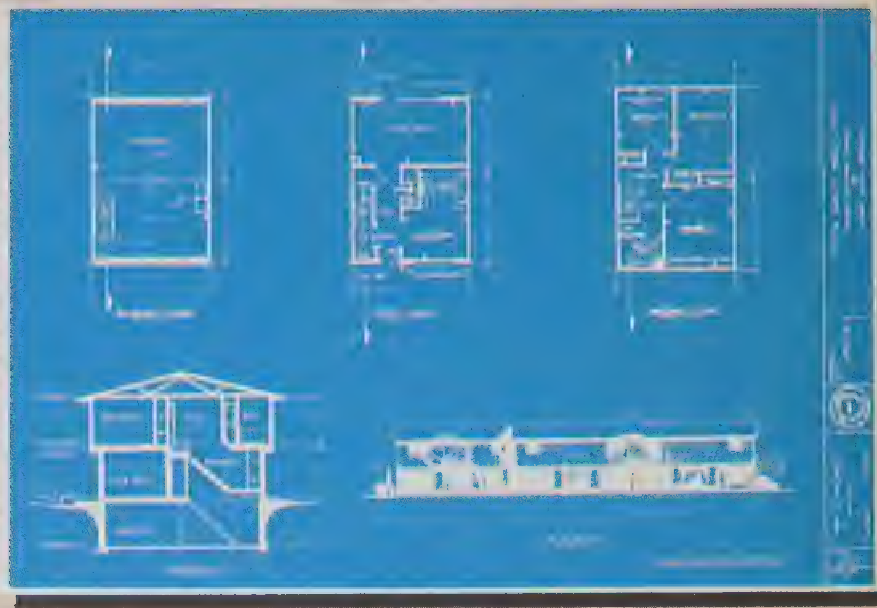
This division projected the construction of 100 homes in the Windsor area during 1969. A labor dispute in the Windsor building industry in the Spring, however, disrupted plans. Very few houses could be started until construction resumed on July 28 after nearly five months of inactivity.

At the beginning of the year, the company had an inventory of 21 houses. Despite the industry problems, we were able to start 36 units. Sales during 1969 totaled 31, leaving an inventory of 26 in various stages of construction at year end.

Despite the foregoing problems, the division was able to operate profitably for 1969.

### OUTLOOK

The market for single family homes is certainly depressed when compared to the last few years. This is due primarily to the very high mortgage interest rates and increased costs of construction that are creating buyer resistance. The need, however, for single family homes is probably greater than ever before. The question is simply how much of a down payment and monthly payment can the individual in need of a home afford. We strongly believe that sometime in the future the various levels of government will be obliged to solve this problem. In the meantime, we are continuing to monitor the market very closely, and having an adequate inventory of building lots along with capable management we are in a position to take advantage of any market upsurge. We are currently building the number of houses that can profitably be sold, and even if the market continues to be depressed throughout the year, we are confident the division will be a profit contributor in 1970.



Canada Place

By CAPITAL Quality Homes

A DIVISION OF CAPITAL DIVERSIFIED INDUSTRIES LIMITED

*(Top to bottom)*

*Typical plan for the Ontario Housing Corporation.*

*Canada Place, Capital's modern single unit housing project. Price range $35,000 to $50,000.*

*Distinctive logo style for Canada Place.*

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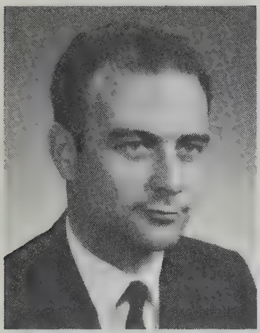

FRED HOENER,
*General Manager*
*Development Division*

## DEVELOPMENT DIVISION

The occupancy of the Company's 8 storey office building by IBM and the Executive Business Centre in November signalled the completion of this division's major 1969 project. The Company is now leasing the remaining office space to additional tenants.

The Executive Business Centre is a concept which provides furnished executive offices, secretarial and other office services for varying terms at a modest monthly rental fee.

The division also achieved the forecasted sale of certain parcels of land in Windsor, Brampton and Montreal, and the 52 unit townhouse complex in Amherstburg, Ontario, developed by Capital during 1968.

Efforts will be continued during 1970 to further reduce Capital's inventory of real estate which will not be utilized within two years including a large parcel of land located in downtown London. This particular property makes up a major portion of a whole block and has been designated by the Corporation of the City of London as the location of a new Justice Administration Building.

This division has a contract to build 220 housing units for the Ontario Housing Corporation during 1970. Capital's construction division has begun construction on the $3.7 million contract. The location is a 12-acre site in Windsor, Ontario which has been sold by Capital to OHC.

The total activities of the development and real estate operations resulted in a reasonable contribution to overall Company profits and we are looking for a continued contribution in 1970.

*(Top to bottom)*
*Completely equipped office suites are leased by the Executive Business Centre. Secretarial services may be included in the monthly rental fee.*
*A view of the Board Room at the Executive Business Centre.*
*The Reception Area at the Executive Business Centre.*

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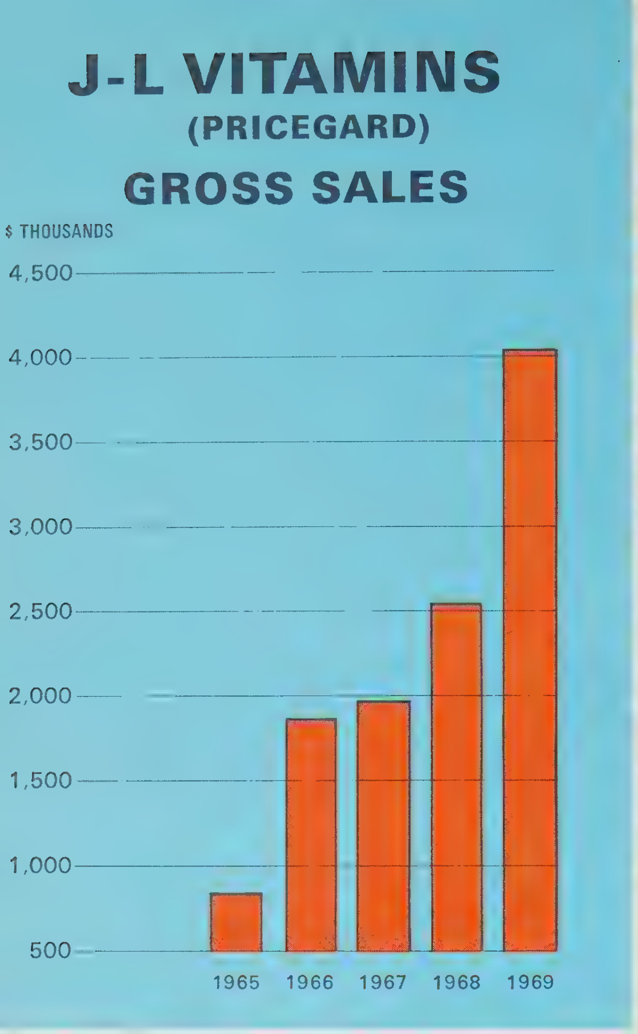
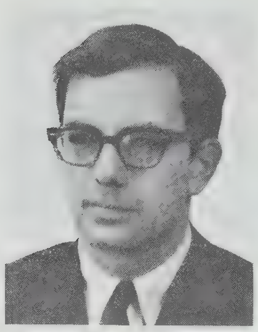



## PRICEGARD LIMITED DIVISION

**pricegard**

(formerly J-L Vitamins and Cosmetics Limited)



GORD MACEY,
*General Manager*
*Pricegard Limited*

*(Left to right)*
*Pricegard (Gross Sales)*
*Pricegard's modern distribution centre and head office is located in the Westminster Industrial Mall, London adjacent to Highway 401.*

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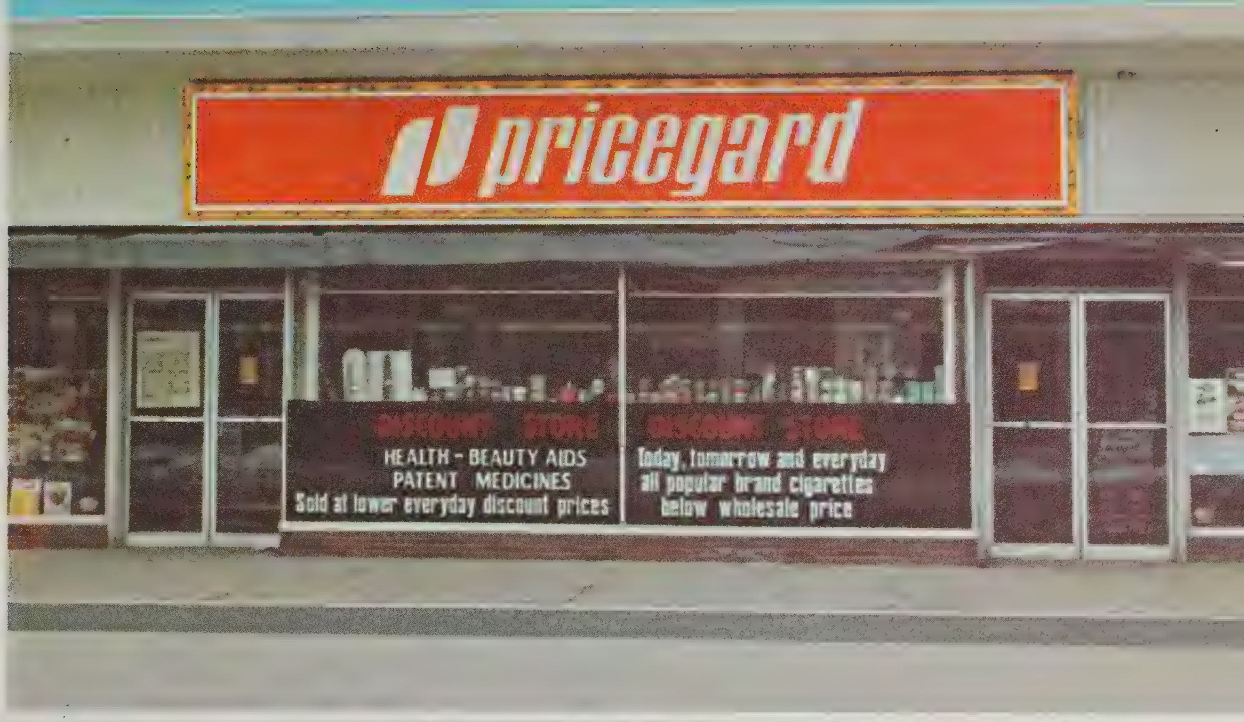
The Company's chain of health and beauty aid stores has grown from 9 retail stores at January 1, 1969 to 29 as of March 31, 1970. This expansion was completed as projected. The new name "Pricegard" was developed to more adequately describe the policy of selling a wide selection of consumer products at lowest possible retail prices.

During 1969 gross sales for Pricegard were $4,100,000 compared to $1,100,000 during the $5\frac{1}{2}$ month period of Capital Diversified ownership in 1968.

The accompanying sales graph shows a steady increase in sales from 1965 to the present time.

### OUTLOOK

Gross sales per store are increasing while at the same time operating costs have been reduced. We are now in a position to handle further expansion with very little additional administrative cost. Current market studies indicate a need for 17 additional stores in our geographical area, two of which will have opened by April 30th. The opening of the remaining stores planned in the above expansion program will proceed as soon as the economy and availability of the necessary funds allow. Management are confident this division is now in a position to show its true profit potential.





*(Top to bottom)*

*Newly designed front signs provide instant recognition at each of the 29 Pricegard stores.*

*Typical interior of Pricegard store.*

*Pricegard's fleet of delivery vehicles regularly service the retail chain. Supplies are distributed from the London, Ontario distribution centre.*

DON McTAVISH,
*General Manager*
*Frontier Acceptance*
*Corporation Limted*

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# FRONTIER ACCEPTANCE DIVISION

Frontier Acceptance Corporation's expansion was again restricted during 1969 due to the difficult monetary conditions. The program of liquidating lower yield receivables was continued, and where possible placed in higher income areas. Half of the mobile home receivables in the Moncton branch were sold to another finance company with the remaining receivables being transferred to the Montreal branch for servicing. The head office was moved to headquarters in London, and operations in Toronto and Montreal were streamlined.

Frontier's gross income was reduced in 1969; however, the reduction of operating expenses more than compensated for the decrease, resulting in an increased profit before tax of $23,000 in 1969 over 1968 before absorbing its share of administrative charges from Capital's Head Office.

It is difficult to predict the future operations of Frontier on a long-term basis as operations are completely dependent upon the availability of funds. The nature of its receivables along with the administrative economies already achieved, however, will assure a continued profitable operation for 1970.

At December 31, 1969 the details of Frontier's receivables were as follows:

| | |
|---|---|
| Retail: | |
| Mobile homes | $ 6,155,456 |
| Other consumer retail instalment | 122,217 |
| Direct consumer cash loans | 852,271 |
| Commercial loans | 4,348,502 |
| | $11,478,446 |
| Wholesale | 351,945 |
| | $11,830,391 |
| Less: | |
| Unearned finance charges | 1,884,441 |
| Allowance for possible losses | 103,948 |
| | 1,988,389 |
| NOTES RECEIVABLE — NET | $ 9,842,002 |

## CONDENSED BALANCE SHEET

| | December 31 1969 | 1968 |
|---|---|---|
| ASSETS | | |
| Cash | $ 223,805 | $ 63,176 |
| Notes receivable, net of unearned finance charges and allowance for possible losses | 9,842,002 | 10,681,000 |
| Other assets and deferred charges | 153,449 | 175,198 |
| | $10,219,256 | $10,919,374 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Short-term notes payable to banks secured | $ 5,549,000 | $ 5,990,000 |
| Accounts payable, accrued liabilities, income taxes and dealers credit balances | 517,615 | 594,332 |
| Capital funds: | | |
| Long-term subordinated debt | 2,465,438 | 2,733,500 |
| Shareholders' equity: | | |
| Preference shares | 384,250 | 384,250 |
| Common shares | 575,463 | 575,463 |
| Retained earnings | 727,490 | 641,829 |
| TOTAL SHAREHOLDERS' EQUITY | $ 1,687,203 | $ 1,601,542 |
| TOTAL CAPITAL FUNDS | $ 4,152,641 | $ 4,335,042 |
| | $10,219,256 | $10,919,374 |

## CONDENSED STATEMENT OF NET EARNINGS

| | Year Ended December 31 1969 | 1968 |
|---|---|---|
| Finance charges, interest and fees earned | $1,322,310 | $1,462,496 |
| Deduct: | | |
| Salaries and wages | 106,478 | 158,390 |
| Administrative charge from parent company | 75,000 | — |
| Other general and administrative expenses | 166,446 | 231,047 |
| Provision for possible losses | 43,211 | 90,390 |
| Cost of borrowings, principally interest | 705,237 | 705,051 |
| | $1,096,372 | $1,184,878 |
| Earnings before taxes on income | $ 225,938 | $ 277,618 |
| Taxes on income | 115,300 | 142,300 |
| NET EARNINGS | $ 110,638 | $ 135,318 |

## CAPITAL DIVERSIFIED INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF EARNINGS

### FOR THE YEAR ENDED DECEMBER 31, 1969

| | 1969 | 1968 |
|---|---|---|
| SALES | $15,098,317 | $ 5,390,483 |
| OTHER REVENUE | | |
| Rentals, royalties, interest and franchise and area licence fees | 1,848,608 | 906,352 |
| | $16,946,925 | $ 6,296,835 |
| COSTS AND EXPENSES: | | |
| Cost of sales | $13,310,190 | [illegible] |
| Selling, general and administrative | 2,081,654 | 1,033,764 |
| Interest on long-term debt | 230,087 | 221,042 |
| Other interest | 281,765 | 42,290 |
| Depreciation and amortization | 237,113 | 56,332 |
| Amortization of financing expenses | 11,939 | [illegible] |
| | $16,152,748 | $ 5,666,828 |
| | $ 794,177 | $ 630,007 |
| EARNINGS OF FRONTIER ACCEPTANCE CORPORATION LIMITED before income taxes (Note 1) | 225,938 | 277,618 |
| Earnings before income taxes | $ 1,020,115 | $ 907,625 |
| Provision for income taxes — Current | 567,700 | 480,944 |
| — Deferred (Note 3) | 6,300 | — |
| | $ 574,000 | [illegible] |
| Earnings from Operations, Before Extraordinary Items | $ 446,115 | $ 426,681 |
| EXTRAORDINARY ITEMS: | | |
| Loss on sale of marketable securities | (7,244) | |
| Capital gain on expropriation | 22,050 | — |
| Capital gain on note discounted | 22,500 | — |
| Gain on disposal of fixed assets | 3,465 | — |
| Gain on purchase and cancellation of company debentures | — | [illegible] |
| Provision for prior years' deferred income taxes | (9,822) | — |
| Reduction of income taxes as a result of the application of prior years' losses (Note 9) | 37,702 | [illegible] |
| | $ 68,651 | $ 296,290 |
| NET EARNINGS FOR THE YEAR | $ 514,766 | $ 722,971 |
| Earnings per common share on average shares outstanding | $ .12 | [illegible] |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

### FOR THE YEAR ENDED DECEMBER 31, 1969

| | 1969 | 1968 |
|---|---|---|
| Balance beginning of year (deficit): | | |
| As previously reported | $ 75,551 | ($ 1,074,249) |
| Retained earnings of unconsolidated finance subsidiary | — | 531,488 |
| | $ 75,551 | ($ 542,761) |
| Add net earnings for the year | 514,766 | 722,971 |
| | $ 590,317 | $ 180,210 |
| Deduct: | | |
| Preference dividends paid | $ 50,985 | |
| Preference dividends of unconsolidated finance subsidiary | 1,958 | $ 13,961 |
| Income tax assessments pertaining to prior years | — | ( 2,440) |
| Prior years' adjustments | — | 51,349 |
| Costs of acquiring unconsolidated finance subsidiary | — | [illegible] |
| | $ 52,943 | $ 104,659 |
| Balance end of year | $ 537,374 | $ 75,551 |

## CONSOLIDATED BALANCE SHEET
### AS AT DECEMBER 31, 1969

## ASSETS

| | 1969 | 1968 |
|---|---|---|
| CURRENT ASSETS: | | |
| Accounts receivable | $ 1,221,598 | $ 355,216 |
| Mortgage draws receivable | 74,300 | 134,936 |
| Current portion of mortgages and notes receivable | 240,948 | 292,186 |
| Marketable securities, at cost (quoted value $34,600) | 38,836 | — |
| Inventories — at lower of cost and net realizable value: | | |
| Real estate | 531,755 | 552,092 |
| Land and improvements not yet utilized in construction | 868,668 | 522,628 |
| Millwork materials | 63,852 | 75,774 |
| Retail and wholesale merchandise | 1,639,799 | 761,884 |
| Sundry assets and prepaid expenses | 81,466 | 79,207 |
| Estimated future income taxes recoverable | — | 130,390 |
| | $ 4,761,222 | $ 2,904,313 |
| INVESTMENTS: | | |
| Commercial real estate, at lower of cost and net realizable value | $ 4,107,554 | $ 2,463,783 |
| Mortgages and notes receivable — non-current portion | 1,197,667 | 1,082,597 |
| Investment in and advances to other companies, at cost | 334,304 | 201,296 |
| Investment in Frontier Acceptance Corporation Limited— at equity in net assets (Note 1) | 1,660,578 | 1,567,542 |
| | $ 7,300,103 | $ 5,315,218 |
| FIXED ASSETS (Note 2): | | |
| Land, buildings, equipment and leasehold improvements — at cost | $ 6,946,842 | $ 2,328,918 |
| Less accumulated depreciation and amortization | 674,976 | 248,928 |
| | $ 6,271,866 | $ 2,079,990 |
| OTHER ASSETS: | | |
| Organization expenses and deferred charges, less accumulated amortization | $ 179,618 | $ 61,668 |
| Deferred financing expenses, less accumulated amortization | 392,611 | 36,759 |
| Goodwill, at cost | 173,600 | — |
| Excess of cost of shares of subsidiaries over equity acquired therein | 2,632,622 | 1,374,659 |
| | $ 3,378,451 | $ 1,473,086 |
| TOTAL ASSETS | $21,711,642 | $11,772,607 |

*Approved on Behalf of the Board*

JOHN D. HARRISON, M.B.E., Q.C., Director

CLARENCE W. LEONARDI, C.A., Director

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1969 | 1968 |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Bank indebtedness — secured | $ 2,520,606 | $ 1,312,530 |
| Accounts payable and accrued liabilities | 2,198,572 | 983,476 |
| Income taxes payable | 219,252 | 224,777 |
| Current portion of mortgages and notes payable | 120,550 | 239,160 |
| | $ 5,058,980 | $ 2,759,943 |
| DEFERRED INCOME TAXES (Note 3) | 35,615 | — |
| DEFERRED INCOME FROM SALE OF AREA LICENCES (Note 4) | 275,000 | 80,000 |
| MORTGAGES AND NOTES PAYABLE — non-current portion (Note 5) | 3,204,530 | 2,097,309 |
| SECURED INCOME DEBENTURES (Note 6) | — | 194,911 |
| 8½% CONVERTIBLE SUBORDINATED DEBENTURES — unsecured (Note 7) | 5,000,000 | — |
| **SHAREHOLDERS' EQUITY:** | | |
| CAPITAL STOCK (Note 8): | | |
| Authorized | | |
| 25,000 5½% cumulative redeemable convertible sinking fund class "A" Preference Shares, par value $40 each | | |
| 15,000 6% cumulative redeemable sinking fund class "B" Preference Shares, par value $40 each | | |
| 1,000,000 class "C" Preference Shares, par value $10 each | | |
| 10,000,000 Common Shares without par value | | |
| Issued and Fully Paid | | |
| 25,000 5½% cumulative redeemable convertible sinking fund class "A" Preference Shares | $ 1,000,000 | — |
| 15,000 6% cumulative redeemable sinking fund class "B" Preference Shares | 600,000 | — |
| 3,936,190 Common Shares (December 31, 1968—3,923,040) | 6,000,143 | $ 5,964,893 |
| | 7,600,143 | 5,964,893 |
| RETAINED EARNINGS | 537,374 | 75,551 |
| | $ 8,137,517 | $ 6,040,444 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $21,711,642 | $11,172,607 |

## CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 1969

| SOURCE OF FUNDS | 1969 | 1968 |
|---|---|---|
| Net earnings for the year | $ 514,766 | $ 722,971 |
| Add charges not requiring cash outlay: | | |
| Depreciation and amortization ...... | 237,113 | 56,332 |
| Amortization of financing expenses | 11,939 | 7,100 |
| | $ 763,818 | $ 786,403 |
| Less income not providing funds: | | |
| Net earnings of unconsolidated finance subsidiary .. | 110,638 | 135,318 |
| Funds provided from operations .......... | $ 653,180 | $ 651,085 |
| Proceeds from issue of capital stock .. | 1,635,250 | 1,930,488 |
| Proceeds from issue of $8\frac{1}{2}$% convertible subordinated debentures ......... | 5,000,000 | — |
| Increase in mortgages and notes payable .... | 1,107,221 | 630,102 |
| Increased in deferred income taxes ........ | 35,615 | — |
| Increase in deferred income from sale of area licences ........ | 195,000 | 80,000 |
| Dividends from unconsolidated finance subsidiary .... | 23,019 | 11,016 |
| | $8,649,285 | $3,302,691 |
| Decrease in working capital ...... | 442,128 | 949,592 |
| | $9,091,413 | $4,252,283 |

| USE OF FUNDS | 1969 | 1968 |
|---|---|---|
| Acquisition of fixed assets, net .......... | $4,428,989 | $1,586,358 |
| Increase in investments: | | |
| Commercial real estate ........ | 1,643,771 | 461,575 |
| Mortgages and notes receivable ... | 115,070 | 710,665 |
| Other companies ..... | 133,008 | 39,318 |
| Unconsolidated finance subsidiary .. | 7,375 | 35,362 |
| Reduction of long-term debt: | | |
| $6\frac{1}{4}$% convertible sinking fund debentures —series "A" ...... | — | 900,000 |
| Secured income debentures ....... | 794,911 | 43,403 |
| Excess cost of subsidiaries over equity acquired therein ..... | 1,257,963 | 414,222 |
| Payment of dividends ... | 50,985 | — |
| Increase in organization expenses and deferred charges ..... | 117,950 | (29,318) |
| Increase in deferred financing expenses ... | 367,791 | — |
| Increase in goodwill .... | 173,600 | — |
| Prior years' adjustments to retained earnings .... | — | 90,698 |
| | $9,091,413 | $4,252,283 |

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Capital Diversified Industries Limited and its subsidiaries as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Capital Diversified Industries Limited and the subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary of which we were not the auditors.

In our opinion these consolidated financial statements present fairly, on a consolidated basis, the financial position of the Companies as at December 31, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for income from sale of area licences described in note 4 with which we concur.

London, Canada
March 30, 1970

McDONALD, CURRIE & CO.
*Chartered Accountants*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 1969

1. PRINCIPLES OF CONSOLIDATION AND ACQUISITIONS

The accompanying financial statements include the accounts of the Company and its subsidiaries on a consolidated basis except for Frontier Acceptance Corporation Limited which is carried as an investment at the equity in the net assets of Frontier Acceptance Corporation Limited. However, the Company does reflect the net earnings of Frontier Acceptance Corporation Limited in its consolidated statements of earnings.

As at December 31, 1969 there was a minority interest of 1,065 preference shares of Frontier Acceptance Corporation Limited ($26,625) which amount has been deducted from the total investment in the unconsolidated finance subsidiary. The minority interest of 195 common shares of Frontier Acceptance Corporation Limited ($1,254—which includes minority interest earnings for the period of $84) is not shown separately, as it has been considered to be insignficant.

During 1968, the Company acquired substantially all of the outstanding preference and common shares of Frontier Acceptance Corporation Limited for 608,720 common shares of the Company and warrants to purchase an additional 235,604 of the Company's common shares at a price of $3.00 a share until July 16, 1973. After the expiration of the exchange offer, additional preference and common shares of Frontier Acceptance Corporation Limited were acquired for cash in the open market. The acquisition of Frontier Acceptance Corporation Limited was accounted for on a pooling-of-interest basis and accordingly, the consolidated earnings for the year ended December 31, 1968 include the earnings of Frontier Acceptance Corporation Limited for the full year.

During the year the Company acquired all of the issued and outstanding shares of Middlesex Creamery Limited, Middlesex Reddies Limited and Middlesex Investments Limited (Note 8).

2. FIXED ASSETS

Details of Fixed Assets are as follows:

| | 1969 | 1968 |
|---|---|---|
| Land | $2,333,940 | $ 991,563 |
| Buildings | 3,054,186 | 835,970 |
| Equipment | 1,451,061 | 438,215 |
| Leasehold Improvements | 107,655 | 63,170 |
| | $6,946,842 | $2,328,918 |
| Less accumulated depreciation and amortization | 674,976 | 248,928 |
| | $6,271,866 | $2,079,990 |

3. DEFERRED INCOME TAXES

The liability of $35,615 is the amount by which income taxes otherwise payable have been reduced by claiming, for income tax purposes, depreciation in excess of the amount recorded in the accounts. This amount is applicable to those future periods in which depreciation claims for tax purposes will be less than the amount recorded in the accounts.

4. DEFERRED INCOME FROM SALE OF AREA LICENCES

Company policy as to income from franchise fees and sale of area licences is as follows:

(a) Individual franchises are receivable in cash and these franchise fees are recognized as income in the period in which the franchisee becomes obligated by agreement to pay such fee.

(b) Area licence fees, receivable partly in cash and partly by notes over a period of years, are recognized as a receivable in the period in which the licencee becomes obligated by agreement to pay such fees. However, the amount of the area licence fees which are represented by notes receivable over a period of years is recorded as deferred income from sale of area licences, which deferred income will be brought into income in the periods in which cash is received on the notes. The financial statements for the year 1968, as originally reported, recognized the total licence fee as income at the time the area licence was sold, and have been restated to reflect current Company policy.

5. MORTGAGES AND NOTES PAYABLE

These obligations are secured by certain fixed assets and commercial real estate and have final due dates of principal as follows:

| | 1969 | 1968 |
|---|---|---|
| First Mortgages | $1,444,964 | $1,687,350 |
| Second Mortgages | 160,852 | 239,140 |
| Notes Secured | 1,664,084 | 208,839 |
| Notes Unsecured | 55,180 | 201,140 |
| | $3,325,080 | $2,336,469 |

| | | | 1969 | 1968 |
|---|---|---|---|---|
| 1969 | 7% | to 10.85% | $ — | $ 122,944 |
| 1970 | 0% | to 15% | 15,180 | 38,588 |
| 1971 | 10% | to 12% | 220,852 | 247,761 |
| 1972 | 7% | to 11% | 54,570 | 166,337 |
| 1973 | 7% | to 11% | 247,618 | 232,550 |
| 1974 | 6% | to 10% | 113,721 | 106,283 |
| 1975 | 9% | to 14% | 1,533,431 | 34,842 |
| 1977 | | 6% | 9,303 | — |
| 1978 | 7% | to 8.5% | 148,520 | 151,114 |
| 1979 | 8.5% | to 9% | 143,218 | — |
| 1983 | | 8% | 19,798 | 19,972 |
| 1984 | | 8.5% | 17,034 | — |
| 1985 | | — | 30,000 | 30,000 |
| 1988 | 8% | to 8.5% | 98,915 | 101,136 |
| 1990 | | 5.75% | 672,920 | 689,799 |
| 1993 | | 7% | — | 363,955 |
| 2000 | | 7% | — | 31,188 |
| | | | $3,325,080 | $2,336,469 |
| Less: Current Portion | | | 120,550 | 239,160 |
| | | | $3,204,530 | $2,097,309 |

The maturity dates shown above reflect only the final due dates of the balances owing and do not reflect the required systematic repayment of principal. An amount due to an unconsolidated finance subsidiary of $128,253 at December 31, 1968 and $1,571,253 at December 31, 1969 is included above, of which $27,000 is included in current portion in both years.

6. SECURED INCOME DEBENTURES

On June 9, 1969, the holders of the Secured Income Debentures exchanged the debentures for $600,000 par value of 6% cumulative redeemable sinking fund Class "B" preference shares plus cash for the balance of the debentures.

7. 8½% CONVERTIBLE SUBORDINATED DEBENTURES

On November 14, 1969 the Company issued $5,000,000 of 8½% convertible subordinated debentures, to mature Novem-

ber 15, 1979. The debentures are convertible into common shares without par value at any time before November 15, 1974 at a rate of $4.25 per share and thereafter at any time prior to maturity at the rate of $6.00 per share.

8. CAPITAL STOCK

(a) By Supplementary Letters Patent dated May 15, 1969, the authorized capital of the Company was increased by creating

(i) 25,000 5½% cumulative redeemable convertible sinking fund Class "A" preference shares with a par value of $40 each;

(ii) 15,000 6% cumulative redeemable sinking fund Class "B" preference shares with a par value of $40 each;

(iii) 1,000,000 Class "C" preference shares with a par value of $10 each, and

(iv) an additional 5,000,000 common shares without par value, ranking on a parity with the existing 5,000,000 common shares.

(b) On February 21, 1969 the Company acquired all of the issued and outstanding common shares of Middlesex Creamery Limited, Middlesex Reddies Limited and Middlesex Investments Limited for cash and $1,000,000 face amount of unsecured convertible income debentures bearing interest at 5½% per annum. These debentures were convertible into common shares of the Company at a price of $8.00 a share. On June 9, 1969 the holders of these debentures exchanged such debentures for 25,000 5½% cumulative redeemable convertible sinking fund Class "A" preference shares with a par value of $40 each and the same conversion privileges as the debentures.

(c) During the year 15,000 6% cumulative redeemable sinking fund Class "B" preference shares with a par value of $40 each were issued in exchange for the Secured Income Debentures (Note 6).

(d) Under a by-law approved by shareholders on April 28, 1969, the Company was authorized to establish stock purchase and option plans for employees and to make available 100,000 unissued common shares in the capital stock of the Company to be used for such employee stock purchase and option plans to be established by the Board of Directors. On January 19, 1970, the Company granted options to purchase 54,000 common shares to certain of its senior officers and to a certain senior officer of one of its wholly owned subsidiaries at a price of $2.45 per share, and cancelled all previously outstanding employee purchase option agreements.

(e) During the year the Company issued 13,150 common shares for a cash consideration of $35,250 upon the exercise of 4,750 share purchase warrants — Series A at $3.00 per share and 8,400 share purchase warrants — Series B at $2.50 per share.

(f) The sinking fund requirements of the outstanding preference shares are as follows:

Class "A" — on or before the 30th day of June, 1972 — $100,000
— on or before the 30th day of June for each year 1973 to 1979 — $128,571.43

Class "B" — on or before the 30th day of June for each year 1970 to 1974 — $120,000

(g) Of the authorized and unissued common shares of the Company at December 31, 1969, 230,454 shares are reserved for share purchase warrants—Series A (issued in connection with the acquisition of substantially all of the preference and common shares of Frontier Acceptance Corporation Limited) exercisable at $3.00 a share on or before expiration date July 16, 1973; 41,600 shares are reserved for share purchase warrants—Series B exercisable at $2.50 a share until June 30, 1973; and thereafter at $3.50 a share until expiration date June 30, 1978; 48,000 shares are reserved for share purchase warrants — Series C exercisable at $2.50 a share until expiration date December 15, 1977; 125,000 shares are reserved for conversion of the 5½% cumulative redeemable convertible sinking fund Class "A" preference shares at $8.00 a share; and 1,176,470 shares are reserved for conversion of the 8½% convertible subordinated debentures at $4.25 a share until November 15, 1974 and thereafter at $6.00 a share until expiration date, November 15, 1979.

9. INCOME TAXES

Certain operating subsidiaries have applied losses of prior years against current earnings to reduce income taxes otherwise payable. These subsidiaries have accumulated losses of approximately $700,000 which may be applied to reduce their taxable incomes of certain future years.

10. LEASES

Minimum annual rental costs under lease agreements which extend for more than five years from December 31, 1969 aggregate approximately:

| | | | |
|---|---|---|---|
| 1970 ..... | $256,000 | 1979 ........ | $156,000 |
| 1971 ..... | 247,000 | 1980-1982 .... | 146,000 |
| 1972 ..... | 246,000 | 1983 ........ | 124,000 |
| 1973 ..... | 234,000 | 1984 ......... | 82,000 |
| 1974 ..... | 221,000 | 1985 ......... | 49,000 |
| 1975 ..... | 211,000 | 1986-1988 .... | 31,000 |
| 1976 ..... | 205,000 | 1989 ........ | 22,000 |
| 1977 ..... | 185,000 | 1990-1998 .... | 15,000 |
| 1978 ..... | 180,000 | 1999-2018 .... | 16,000 |

11. COMMITMENTS

The Company is to acquire at certain times and under certain conditions up to December 31, 1973, a 25% interest in an Australian public company, which company is to develop the Red Barn Restaurants in Australia. At current conversion rates, this investment will approximate $460,000 of which $120,000 has been invested to December 31, 1969. Red Barn System (Canada) Limited, a wholly owned subsidiary, is to invest by December 31, 1970 $125,250 in the capital stock of Red Barn System (Western) Limited, of which $75,150 was invested subsequent to December 31, 1969. The estimated cost to complete contracts in progress at December 31, 1969 for buildings in the Red Barn division is $179,500.

12. CONTINGENT LIABILITIES

The Company and one of its subsidiaries are contingently liable in the amount of $1,751,622 ($520,569 at December 31, 1968) to the unconsolidated finance subsidiary for certain equipment leases financed by such subsidiary.

13. CHANGE OF NAME

By Supplementary Letters Patent dated May 15, 1969, the name of the Company was changed from Capital Building Industries Limited to Capital Diversified Industries Limited.

14. COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Company and its subsidiaries whose financial statements are consolidated with those of the Company to the directors and senior officers of the Company was $158,417.

15. COMPARATIVE FIGURES

Certain information contained in the financial statements relating to December 31, 1968 has been reclassified for comparative purposes.

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# INTERIM REPORT

*FOR SIX MONTHS ENDED*

# JUNE 30TH, 1969

CAPITAL DIVERSIFIED INDUSTRIES LIMITED

# REPORT TO SHAREHOLDERS

On behalf of your Board of Directors, I am pleased to report on another satisfying and profitable six month period of your Company's operations. The wisdom of your Company's policy of diversification is evident in reviewing the various Divisions' activities; for example, because of a labour dispute in the Construction Industry in the Windsor area, our housing operation was not able to commence their building program until July 28. We had, in fact, projected 84 starts by this date. Despite this and due to other Divisions operating more profitably than anticipated, the profit before taxes on combined operations for the six months was only 7% less than projection.

Each division has been under intensive study with regard to introducing more sophisticated programs of inventory controls, market studies for further expansion, maximum utilization of funds employed, and of course, the most important ingredient of all, People. Many programs have been instituted, along with our people program, and are showing excellent results.

A new Company Corporate logo has been introduced to co-ordinate with the change of name from Capital Building Industries Limited to Capital Diversified Industries Limited. The front cover of this report shows the logo which has been selected as the symbol that readily identifies the Company, its Divisions and activities. We believe the modern design portrays the progressive approach Capital is applying in the development of its many diversified activities.

## COUNTRY STYLE DONUTS LIMITED

We previously reported to you on April 28th of this year, that Capital Diversified Industries Limited had entered into an agreement to acquire Country Style Donuts Limited, Country Style Donuts Realty Limited and Country Style Donuts Inc.

Unfortunately, this acquisition will not be consummated at this time as it has not been possible for Country Style to fulfill certain of the conditions required by Capital.

## EARNINGS

Total earnings before income taxes and including extraordinary items other than income tax recoveries for the six months ended June 30, 1969 were $601,348, an 80% increase over the comparable figure of $334,041 for last year. This very satisfactory increase did not completely reflect itself in net earnings, however, since income tax recoveries due to the application of prior years' losses were much lower this year than last. The greatest portion of earnings in the first six months of this year occurred in subsidiary companies that are fully taxable. We still have approximately $800,000 of accumulated losses of prior years that may be applied to future earnings of certain subsidiaries.

In spite of the difference in the impact of taxation between the two six month periods, net earnings of $314,348 for the first six months this year were still 20% ahead of the $260,041 earned in the first six months of 1968. Due to the increased number of shares now outstanding, net earnings per common share were $ .08 for both periods.

As previously stated the last six months should produce a substantial increase in earnings due to the seasonal nature of certain subsidiaries. For example 16 additional Red Barn units will open during this period; income from area franchises will be received; 4 additional J-L locations will open; over 60% of Essex production will be shipped; major land sales are scheduled for closing; and, of course, our Housing division should contribute substantially.

## FINANCIAL POSITION

In June of this year, two issues of income debentures were substantially all exchanged for preference stock, and we now have a total shareholders' equity of over $8,000,000. The increase in shareholders' equity is shown in the following figures:

| | |
|---|---|
| Shareholders' equity at: | |
| December 31, 1967: | |
| Originally reported | $ 1,319,805 |
| Adjusted for acquisition of Frontier Acceptance Corporation Limited on a pooling-of-interest basis and of Meteor Securities Limited | $ 3,491,644 |
| December 31, 1968 | 6,125,444 |
| June 30, 1969 | 8,000,000 |

Except for certain property mortgages and equipment notes, we have no long-term debt outstanding and are in excellent position to expand our long-term debt to support future growth.

Management is studying a refinancing program to replace the decrease in working capital resulting from the capital expenditures in our expansion program. We do have, however, ample interim financing available to carry out our over-all 1969 expansion plans.

## OPERATIONS

The following is a brief report on all operating divisions.

## RED BARN SYSTEM (CANADA) LIMITED

The planned expansion of your Fast Food Family restaurant chain is on schedule with 26 Red Barn Restaurants actually in operation. They are located in:

| | | | | | |
|---|---|---|---|---|---|
| Toronto | - 8 | Windsor | - 2 | Waterloo | - 1 |
| Ottawa | - 3 | London | - 3 | Guelph | - 1 |
| Oshawa | - 1 | Kingston | - 1 | St. Catharines | - 1 |
| Hamilton | - 1 | Sarnia | - 1 | Peterborough | - 1 |
| Niagara Falls | - 1 | Burlington | - 1 | | |

The 1969 program calls for a total of 42 restaurants to be operating by year end. To accomplish this program, we have obtained sites and are in various stages of construction on 16 additional restaurants which will be opened during 1969 in the following communities:

| | | |
|---|---|---|
| Cornwall | Kitchener | London |
| Chatham | Galt | Belleville |
| Brantford | Barrie | St. Catharines |
| Welland | Cooksville | Windsor |
| Burlington | Hamilton - 2 | Mississauga |

A new and larger Canadian designed Red Barn Restaurant with seating for 65 customers will be opened on September 29th in St. Catharines, Ontario. This unit is the result of our market research which indicates this size of restaurant is ideal for certain locations where more seating is desirable and will provide an even stronger year 'round sales basis, using the regular Red Barn menu.

Red Barn sales continue to increase at an excellent rate. Average gross sales per location on an annualized basis in 1969 are approximately $240,000 compared to $220,000 in 1968 and $175,000 in 1967.

The public acceptance of the Red Barn Restaurants has been exceptional. Many units are opening with first week sales figures listed in the top ten of all North America. The Sarnia unit set a North American record with Peterborough following close behind.

New marketing approaches are constantly being studied with our attention now directed to opening a 'store front' Red Barn concept. This type of restaurant will be ideally located in the downtown areas in major Canadian cities. The first unit of this type will be opened in October of this year.

As reported previously, your Company owns the franchise for the Red Barn System in Australia. Construction of the first two units is underway and they will be open this fall.

The appointment of Mr. Douglas Heron as Vice President of Red Barn System (Canada) Limited has recently been announced as an important part of our people program. Mr. Heron was formerly Director of Retail Services for Capital Diversified Industries.

## J-L VITAMINS AND COSMETICS LIMITED

The expansion of J-L Health and Beauty aid stores is moving on schedule with 24 retail stores now owned and operated by Capital's subsidiary J-L as of July 31. These stores are located in:

| | | | | | |
|---|---|---|---|---|---|
| London | - 6 | Clinton | - 1 | Windsor | - 4 |
| Chatham | - 1 | Seaforth | - 1 | St. Mary's | - 1 |
| Hamilton | - 3 | Ridgetown | - 1 | Stratford | - 2 |
| Brantford | - 1 | Essex | - 1 | Aylmer | - 2 |

There were 9 stores in the original J-L acquisition in 1968. The 1969 plan of expansion called for 19 new retail stores to be opened during this year. Fifteen new stores have already been added to the chain and the additional 4 stores will be opened by year end.

This growth is being accomplished by the opening of new locations and the acquiring of established independent outlets.

A centralized marketing approach has now been inaugurated with all stores carrying identical merchandise at identical prices. All stores are supplied from the new central warehouse located at London.

The increase in marketing operations from nine stores to 24 stores has brought about the need for a larger supervisory and management group. These additions to staff have been made.

We are pleased to welcome Mr. G. Gordon Macey as General Manager of this division. Mr. Macey has had extensive experience as merchandising manager for one of Canada's largest wholesale and retail organizations prior to joining J-L.

## MIDDLESEX CREAMERY LIMITED

There are two operations within Middlesex Creamery; one is the butter and egg division and the other is Middlesex Reddies which produces pre-portioned butter patties for hotels, motels, restaurants, air lines and institutions.

Reddies sales have increased 27% over last year. New major consumer demand has required the installation of additional processing equipment. The latest patented Reddies machine is now being installed. The major increased demand for Reddies has come from the East and West Coast areas. Middlesex Reddies recently added new refrigerated transport trucks to better serve its customers the highest quality product.

We continue to be enthusiastic about the prospects of installing Reddies production equipment in England. Our first hand research indicates that the per-capita butter consumption in Britain is almost double that of Canadians. Negotiations with major British butter producers are continuing.

While the Reddies operation has been flourishing, the package butter sales have decreased considerably. This has happened because of the lowering of retail prices. Current retail butter prices are almost at the wholesale level. Middlesex Creamery has curtailed package butter production rather than operate in a market where a reasonable profit could not be obtained. This type of market has existed before and experience indicates it will correct itself in time.

Egg sales have remained strong and are showing a slight increase over last year.

Although dollar volume is down, the overall Middlesex operation is showing a satisfactory profit and is on target with projections.

## MANUFACTURING DIVISION

### ESSEX CABINET MAKERS (ONTARIO) LIMITED — Ottawa

Essex Cabinets is experiencing a prosperous year as projected, with 1969 sales already reaching $300,000. This compares with $200,000 for the same period in 1968.

Sales to date plus orders on hand to be completed indicate that the projected sales figure of $800,000 for 1969 is an attainable target.

The profitability factor in the Ottawa market has stabilized as anticipated. There is a good back-log of contracts which should enhance the Essex profit picture.

Initial orders are on hand for a new modular type of product and we expect to expand this activity during the coming year.

A new union contract has been signed assuring continuity of production for a two year period.

## CONSTRUCTION DIVISION

**Capital Quality Homes**

As mentioned earlier in my report, our housing operation faced a lengthy labour dispute that curtailed all building in the Windsor area. Construction has just now begun on our Canada Place development. The $3,000,000 project was announced at a press conference held in Windsor on June 5th. There will be 51 homes built in the Canada Place project with an additional 26 homes built in another section of the City.

During the curtailment of building activities, Capital carried practically no inventory of completed dwellings and minimized its overhead expenses.

While it is physically impossible to regain this year all of the production lost during the last five months, we anticipate achieving a substantial portion.

## BUSINESS DEVELOPMENT DIVISION

Your Company's major office building project on Dufferin Avenue in downtown London is nearing completion.

The 8 storey building will be ready for occupancy this fall.

I.B.M. will be the first major tenant to occupy the premises and should move in on approximately October 15.

A new concept in office facilities for executives operating individually and requiring an office fully furnished and equipped with secretarial staff, receptionist and Board Room facilities will be located in the Dufferin Avenue location.

The Town House development in Windsor under construction for the past year and a half has now been completed. The apartments were rented and the entire project was sold to a private group of investors in Windsor.

A proposal to build 220 family units in Windsor has been made to the Ontario Housing Corporation. The multi-million dollar project is under review by O.H.C. Your Company has attempted to fulfill every possible requirement to secure this important development for the Windsor area. The work would be completed by the Construction Division of your Company.

Further announcements are expected to be made as the project progresses.

## FRONTIER ACCEPTANCE CORPORATION LIMITED

Frontier's head office has now completed its move to London, Ontario, and is located at 291 King Street, with Capital Diversified. The projected advantages of Frontier's relocation are now becoming a daily reality. Frontier's policy to diversify into commercial and inventory financing is gradually taking place. $1,000,000 of mobile home receivables in the Maritimes were sold to a major finance company as part of a planned reduction of receivables in that area.

Higher interest costs are affecting the division's profit year to date; however, the diversification into higher yield receivables and administrative economies will enhance future earnings.

D. H. Swift
President

## CAPITAL DIVERSIFIED INDUSTRIES LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

| | Six months ended June 30 1969 | Six months ended June 30 1968 |
|---|---|---|
| **Source of Funds:** | | |
| Net earnings for the period | $ 314,348 | $ 260,041 |
| Add charges not requiring cash outlay - Depreciation and amortization | 96,140 | 32,428 |
| | $ 410,488 | $ 292,469 |
| Less net earnings of unconsolidated finance subsidiary | 53,957 | 67,419 |
| Total funds provided from earnings | $ 356,531 | $ 225,050 |
| Dividends from unconsolidated finance subsidiary | 11,409 | |
| Mortgages & notes receivable, properties and equity in affiliated companies (net) | 206,513 | 41,776 |
| Issuance of capital stock | 1,611,900 | 2,312 |
| Increase in mortgages and notes payable | 215,884 | 153,687 |
| | $ 2,402,237 | $ 422,825 |
| Decrease in working capital | 1,613,191 | 197,466 |
| | $ 4,015,428 | $ 620,291 |
| **Use of Funds:** | | |
| Acquisition of fixed assets (net) | $ 1,830,145 | $ 592,602 |
| Reduction of long-term debt: Secured income debentures | 794,911 | - |
| Excess cost of shares of subsidiaries over equity acquired therein and goodwill | 1,361,537 | |
| Other | 28,835 | 27,689 |
| | $ 4,015,428 | $ 620,291 |

## CAPITAL DIVERSIFIED INDUSTRIES LIMITED

## UNAUDITED CONSOLIDATED SUMMARY OF NET EARNINGS

| | Six Months Ended June 30 | |
|---|---|---|
| | 1969 | 1968 |
| Sales and other revenues | $ 6,634,380 | $ 2,037,097 |
| Earnings before income taxes and extraordinary items | $ 541,348 | $ 328,141 |
| Provision for income taxes | 295,000 | 174,000 |
| Earnings before extraordinary items | $ 246,348 | $ 154,141 |
| Extraordinary items: | | |
| Gain on purchase and cancellation of Company debentures | | $ 5,900 |
| Proceeds from sale of area licence | $ 60,000 | |
| Reduction of income taxes as a result of application of prior years' losses | 8,000 | 100,000 |
| | $ 68,000 | $ 105,900 |
| Net earnings | $ 314,348 | $ 260,041 |
| Net earnings per common share | $ .08 | $ .08 |